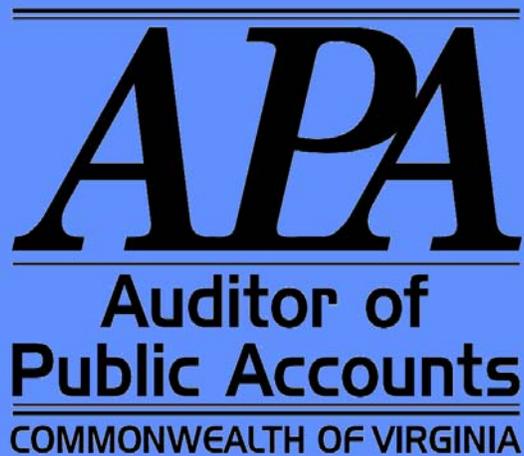


**DEPARTMENT OF GENERAL SERVICES**

**REPORT ON AUDIT  
FOR THE YEARS ENDED  
JUNE 30, 2005 AND JUNE 30, 2006**



## AUDIT SUMMARY

Our audit of the Department of General Services for the period July 1, 2004, through June 30, 2006, found:

- proper recording and reporting of transactions, in all material respects, in the PeopleSoft Financial System;
- several matters involving internal control and its operation necessary to bring to management's attention;
- an instance of noncompliance and other matters that required reporting; and
- inadequate corrective action on one prior finding "Review and Issue Updated eVA Manual."

In addition to this report, we have reviewed General Services' management of capital outlay, the Office of Fleet Management Services, and financial and other services rendered to four other agencies. We have issued a separate report on the four agencies and will issue reports on Fleet Management and the management of capital outlay.

### Addressing eVA Standards

In order to prepare for an enterprise application procurement and purchasing system as part of the Commonwealth's Enterprise Application Project, a consultant assessed General Services' eVA application and identified a number of actions that the Commonwealth needs to undertake to position itself for the use of an enterprise application. The consultant recommended creating a statewide, standardized procurement environment; creating a single statewide vendor table; and developing ways to integrate eVA into the agencies' accounting system. The Auditor of Public Accounts concurs with these recommendations.

The Auditor of Public Accounts does not believe that General Services alone can execute the process necessary to address these issues. This undertaking will require the cooperation not only of a number of central agencies, but of most state agencies and institutions.

Therefore, we recommend that the Secretaries of Administration, Finance, and Technology work with General Services and the Commonwealth's Enterprise Application Project Director to develop and implement the framework for achieving these three recommendations. Implementing these recommendations will move the Commonwealth to a more efficient and effective approach to dealing with its vendor community.

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## **AUDIT FINDINGS AND RECOMMENDATIONS**

### **EFFICIENCY ISSUE ALERT**

During the course of our audits, we encounter issues that are beyond the corrective action of management and require the action of either another agency, outside party, or the method by which the Commonwealth conducts its operations. We feel that these practices or conditions represent an opportunity for the Commonwealth to improve its practices and potentially save resources.

#### **Addressing eVA Standards**

As part of the Commonwealth's Enterprise Application Project, Forrester Consulting assessed General Services' eVA application. In order to prepare for an enterprise application procurement and purchasing system, Forrester identified a number of actions that the Commonwealth needs to undertake to position itself for the use of an enterprise application. Their recommendations for preparation follow.

- Create a statewide, standardized procurement environment, including creating standardized workflow, approvals, and reports available for all eVA agencies to use.
- Create a single statewide vendor table, which includes all information about all registered vendors in one location.
- Develop ways to integrate eVA into the agencies' accounting system, including integrating the chart of accounts into eVA, combining eVA data with invoice data, budget checking, and receiving.

The Auditor of Public Accounts concurs with these recommendations and the first two recommendations are findings previous cited by this Office in the implementation of eVA. We, however, do not believe that General Services alone can execute the process necessary to address these issues raised by the consultant. To effect a change of this nature will require the cooperation not only of a number of central agencies, but most of state agencies and institutions.

Therefore, we are recommending that the Secretaries of Administration, Finance and Technology work with General Services and the Commonwealth's Enterprise Application Project Director to develop and implement the framework for achieving these three recommendations.

Further, we also believe that achieving these three recommendations, even if the Commonwealth delays implementation of the enterprise application, will save the Commonwealth resources, reduce redundancy and improve accountability and internal controls. Finally, these recommendations move the Commonwealth to a more efficient and effective approach to dealing with its vendor community.

### **INTERNAL CONTROL, COMPLIANCE, AND OTHER MATTERS**

#### **Improve Documentation and Internal Controls over Fiscal Operations**

The Fiscal Services Section does not have policies and procedures for the fiscal administration of the agency or the agencies that it supports. We agree with the agency adopting the fiscal practices and procedures

in the *Commonwealth Accounting Policies and Procedures (CAPP) Manual*, as issued by the State Comptroller. However, General Services must document its internal policies and procedures, which expand upon the statewide practices.

General Services has implemented the PeopleSoft suite of financial management software to include interfaces to the Commonwealth Accounting and Reporting System (CARS) and the Commonwealth's procurement system electronic Virginia (eVA). The Fiscal Services Section within the Office of the Director uses this software to account for all of General Services' financial transactions as well as the transactions of several smaller agencies within the Secretary of Administration.

General Services' management needs to consider the risk associated with potential errors that can result from inconsistent use of their system. Additionally, there is a risk that the loss of staff at a critical juncture would leave General Services insufficient time and resources to train new staff properly on the operations of the system.

We recommend that General Services perform a risk assessment of the Fiscal Services Section's operations. The risk assessment should consider the adequacy of system and user documentation, the loss of key personnel, and the effect these issues could have on the processing of information. We recommend that General Services conduct the risk assessment independent of Fiscal Services, as it will measure the overall risk of their section to General Services. The risk assessment should consider losses at critical junctures in fiscal operations and General Services' ability to recover from those losses. General Services should develop a plan to address those issues determined by the risk assessment.

#### Review and Issue Updated eVA Manual

General Services last updated the current eVA security manual on February 1, 2004, which General Services and CGI-AMS, the eVA service contractor, posted to the eVA Portal. In our eVA Security Review report dated June 14, 2005, our Office noted that there were several areas where General Services could enhance or update their policies and procedures to reflect current practices, as the posted manual did not contain the operating procedures that General Services was using at that time.

As of May 17, 2007, General Services has revised, but not issued an update to, the security manual dated July 5, 2006. General Services needs to complete its review of the revised security manual and implement the new policies and procedures included in the manual.

#### Develop and Implement Policies and Procedures for the Surplus Warehouses

The Surplus Property Management Office does not have documented and implemented policies and procedures for internal operations of the Surplus Warehouses. These policies and procedures should include processes for receipt, storage, sale, and disposal of items received at the Warehouses.

The Commonwealth's procurement and surplus property manual contains the only documented policies and procedures regarding surplus property. However, this manual only documents the agencies' responsibilities related to surplus property and not internal warehouse operations.

The Surplus Property Management Office should develop and implement policies and procedures for the internal operations of the Warehouses. The Surplus Property Management Office should consider the cost benefit of all policies and procedures given the reduced value of most assets coming to the Surplus Warehouses as they develop and implement these policies.

### Include Mandated Procedures in the Surplus Property Manual

The Surplus Property Management Office has not included several state mandated procedures relating to surplus property in the Commonwealth's procurement and surplus property manual. The omitted procedures relate to the sale of surplus vehicles to local social service departments, exemptions for institutions of higher education, and surplus proceeds that agencies can receive. The Surplus Property Management Office writes and updates the surplus property chapter of the Commonwealth's procurement and surplus property manual. This chapter provides instructions for state agencies to follow related to surplus property. State laws passed by the General Assembly are the basis of the surplus property manual. We recommend the inclusion of these omitted procedures in the next revision of the manual and for the Surplus Property Management Office to distinguish between mandated and optional procedures. State agencies are adhering to these state laws and the omission does not affect the way the surplus property process works; however, the sections should be included in the manual.

### Increase Awareness and Use of the Surplus Property and Disposal Process

One of General Services' functions, through the Surplus Property Management Office, is to re-use and sell surplus and used equipment, helping the Commonwealth recover some of its original investment in these assets. The Surplus Property Management Office does this by assisting agencies and institutions with the disposal and resale of equipment they no longer want or can use through the two Surplus Warehouses and the Surplus Virginia website. We found that this program is not as effective as it could be. The following recommendations provide opportunities to increase awareness and use of the surplus property program.

- The Surplus Property Management Office should develop processes that will help minimize the time between agencies and institutions declaring items as surplus or ready for disposal and the items being available for sale either on Surplus Virginia or at one of the warehouses. These processes could include scheduled dates for agencies and institutions to transfer items to the Surplus Warehouse and to obtain approval for disposal of useless items.

The Surplus Property Management Office could also consider providing shipping or transportation of surplus items to the warehouses. This might be more cost effective than each agency providing its own transportation. Finally, the Surplus Property Management Office might want to consider obtaining access to view assets in the Commonwealth's fixed asset system for all agencies so that they can monitor items designated as surplus or subject to disposal but not communicated to them yet.

- The Surplus Property Management Office should make the Surplus Virginia website more user-friendly and informative to agencies, institutions, political subdivisions, and the public. Currently, entering information about surplus equipment is a manual process. We recommend the Surplus Property Management Office provide agencies with the ability to upload surplus equipment information using software such as Excel.

Surplus Virginia provides detailed descriptions, pictures, contact information, and is available through any internet connection; therefore, it provides more useful and timely information than visiting the Warehouses to view available assets. We also recommend expanding Surplus Virginia to keep all postings active until the agency deletes the posting and include geographic regions so that agencies and political

subdivisions can quickly locate items that are close to their location in order to reduce shipping and transportation costs. The Surplus Property Management Office should also encourage use of Surplus Virginia as a procurement source, as this creates cost savings to agencies and the Commonwealth as a whole.

- Since many agencies do not fully understand the surplus and disposal process or the different services the Surplus Property Management Office offers, the Surplus Property Management Office could consider creating a periodic bulletin to email to potential users of surplus property and the Office's services. The bulletin could highlight specific areas of the Surplus Program, provide examples and "how to" scenarios for agencies, give "success stories" of agency transfers, disposing of asset and surplus sales, address ongoing surplus concerns, and provide updates on services, such as the Surplus Virginia website.

We believe that these recommendations will lead to an increased awareness of the surplus program and its operations. If agencies and institutions are more aware of how the program works and the program is more accessible and timely, agencies and institutions are more likely to participate in the program.

#### Finalize and Distribute Real Estate Policies and Procedures

Many agencies and institutions do not fully understand the roles of the Division of Real Estate Services and their only source of ready reference material is the policy and procedure manuals provided by General Services. The Real Estate Services continues to publish the now defunct Bureau of Real Property Management policies and procedures; however, these procedures are no longer relevant. Though formed well over two years ago in January 2005, Real Estate Services is still developing new external policies and procedures for agencies to follow and internal policies and procedures for Real Estate Services.

Having current policies and procedures is critical because there are distinct differences in the roles of the previous Bureau of Real Property Management and the new Division of Real Estate Services, specifically Real Estate Services' role in entering into and administering leases for state agencies. Without these policies and procedures, agencies may not be involving Real Estate Services properly when leasing new property, and therefore, may not get the benefits of their experience and cost saving efforts.

We recommend that Real Estate Services complete documenting and implement current policies and procedures that cover every aspect of both the agencies' role and Real Estate Services' role for every step of the lease acquisition process and all other functions provided by Real Estate Services. Real Estate Services should separate these policies and procedures by agency instructions and Real Estate Services instructions. Real Estate Services should distribute these documented policies and procedures to each agency and make them available on the agency website.

#### Improve Internal Controls Over Appointment of Contract Administrators

General Services did not appoint contract administrators for two of the eight reviewed contracts. Section 10.2 of General Services' Agency Procurement and Surplus Property Manual states, "Contract administration shall be delegated in writing by the buyer designating a specific individual or position..." Contract administrators have specifically delegated tasks which may include acceptance of goods or services, approval of invoices, scheduling and monitoring of project progress, coordination of the provision of agency or other resources when part of the contract, and favorable or critical feedback to the contractor and buyer.

We recommend that General Services review all contract files to ensure there is an administrator. The contract administrator should be either the end user or a person most involved with the vendor's performance. For example, the contract administrator for a major software implementation could be the Information Systems Project Manager instead of an end user. The review should consider the quantity and more importantly, the quality of documentation of vendor performance by the contract administrator to the contracting officer.

### Internal Controls over Administration of Statewide Contracts

The Division of Purchases and Supply enters into contracts with vendors for goods and services that they determine will have common usage throughout government. Designated public entities may purchase from one of these contracts without having to do a separate solicitation. Since Purchases and Supply often has contracts for goods and services that they do not directly use, they do not have a basis for evaluating the performance of the vendor without input from the contract users.

In determining if Purchases and Supply received input from the end users, we performed a contract review of ten statewide contracts. We have found that Purchases and Supply is inconsistent with their documentation on vendor performance. Of the ten contract files tested, six did not have any documentation of a vendor evaluation.

Each of the tested contracts has the possibility of renewal. In order for Purchases and Supply to properly assess if a renewal is in the best interest of the Commonwealth, the contract administrator must make a determination that the vendor has adequately performed its contractual duties. Without documentation of this determination, it is difficult to assess the effectiveness of the contract.

The following are examples of methods to review vendor performance.

**Annual evaluation of vendors by end users:** Purchases and Supply is not the end user of the contracts that they procure. The contract administrator does not initiate purchases and does not ensure that the vendor actually delivers the purchases; it is the various authorized agencies that use the contracts. Thus, the only way to evaluate the vendors is to have the end users rate the vendors.

**Summary of purchases on contract:** A summary of state contract purchases would allow Purchases and Supply to determine the scope of the contract, as well as determine who the primary contract users are. Purchases and Supply could use this information to evaluate which of the contracted items are vital to the Commonwealth before they renew the contract.

Purchases and Supply does not have the capacity to create a summary of contract purchases using eVA. This system can track purchase orders from the end users, but the total value of the purchase order is not necessarily the actual price paid by the end user, as the system does not track voucher information. Additionally, the system tracks purchase orders by vendor, and not by contract, as contract number is an optional field in the information system.

Purchases and Supply's management needs to consider the risks associated with inadequate reviews of vendor performance. Without vendor evaluations, the contract administrator does not have the information needed to properly evaluate if renewing a contract is in the best interests of the Commonwealth. Additionally, knowing the level of services provided helps the contract administrator focus their renewal and new contract efforts on products and services that the Commonwealth is purchasing.

We recommend that Purchases and Supply document its policies and procedures as they relate to evaluating the performance of the vendors for statewide contracts. Additionally, Purchases and Supply should maintain these evaluations and determination of vendor performance in the contract files for review.

#### Improve Internal Controls over Special Payouts to Terminated Employees

General Services improperly paid a terminated employee \$5,000. The employee had converted disability credits into one year of retirement service. Once an employee opts to convert disability credits into years of retirement service, that employee is no longer eligible to receive monetary compensation for those credits. In this instance, General Services paid the employee one year of retirement service in addition to \$5,000, the maximum payout for converting disability credits into currency.

Furthermore, General Services should have made an effort to recoup these funds. General Services could not provide documentation that they attempted to recoup the funds. Additionally, we believe that the Human Resources division was unaware of the situation until notified by the auditor.

We recommend that General Services review its special payout procedures for terminated employees. General Services should ensure that appropriate levels of management review all special payouts to terminated employees. Furthermore, General Services should maintain complete and accurate documentation to account for payouts to terminated employees.

## AGENCY HIGHLIGHTS

### *Overview*

The Code of Virginia creates the Department of General Services and permits the Director to organize the divisions of the agency to best meet the needs of the Commonwealth and to promote effectiveness and efficiency. Currently, the agency is organized as follows:

- Office of the Director
- Division of Engineering and Buildings
- Division of Real Estate Services
- Division of Purchases and Supply
- Division of Consolidated Laboratory Services

### *Office of the Director*

In addition to providing executive management to the Department of General Services, the Office of the Director provides administrative services not only to the other divisions of the agency but also to other agencies of the Commonwealth.

### Graphic Services

Graphic Services provides the agencies of the Commonwealth with graphic design services. These services not only include the design of logos but also assistance with creating graphical presentations. Funding for graphic services comes from fees charged to the agencies, and is less than one percent of the total for General Services in any given year.

### Surplus Property Management Office

The Surplus Property Management Office's mission is to re-use surplus or used equipment property or sell it to the public at competitive prices. The management of the property moved from the Division of Purchases and Supply to the Procurement Services Section of the Office of the Director in fiscal year 2006. General Services receives both State and Federal surplus equipment. The Surplus Property Management Office does not handle real property such as land and buildings; instead, General Services' Division of Real Estate Services handles these items.

The State Surplus program provides a method for state agencies and institutions to get rid of equipment that they no longer need. The agency can either dispose of the equipment with approval from the Surplus Office or transfer it to one of the Surplus Warehouses in Richmond or Wytheville. The Warehouse staff price the equipment in order to recoup operating costs and make the equipment available for sale to other state agencies or political subdivisions. The agency must provide its own transportation of the items to the Warehouses because the Surplus Warehouses do not have trucks or the staffing to pick up items from the agencies.

The Federal Surplus Property program receives federal surplus and used assets from the U.S. General Services Administration. The federal government declares property not used within the federal system as surplus; a portion of the federal surplus is available to states for distribution to eligible participants. The law provides that public agencies, nonprofit health, and educational institutions may be eligible to receive federal surplus property, provided they meet certain criteria. The Surplus Property Management Office must return any Federal surplus items that have not sold within a year to the U.S. General Services Administration. This program does not include weapons. There is an additional Federal Surplus Property program organized by

the Department of Defense at the federal level and coordinated by Virginia State Police. Law enforcement agencies use the program coordinated by State Police to acquire federal military surplus items such as weapons, clothing, and office furniture. The Surplus Property Management Office program is not associated with the State Police program.

In February 2006, a General Services' employee and a temporary contract employee stole handguns from the Surplus Property Warehouse in Richmond. State laws and policies allowed the transfer of surplus firearms to the Richmond Warehouse location prior to the theft of the handguns. A Federal Law Enforcement agency, working with State and Local Police, caught, prosecuted, and incarcerated the individuals that stole the weapons for their crime. General Services worked closely with the State Police and other law enforcement agencies to account for the recovered firearms. After the theft, the Surplus Property Management Office instituted a new policy that prohibits the transfer of surplus firearms to the Surplus Warehouses. As a result of this theft, General Services temporarily closed both Surplus Warehouses, hired a director of surplus property, and contracted with a consultant to review the surplus warehouse operations, take a physical inventory of surplus items in the warehouses, develop appropriate policies and procedures, and train Warehouse staff on the new system and processes.

The consultant performed the inventory and made many detailed recommendations for Warehouse operations, including recommending an automated inventory system, new physical security controls, and reorganization of the warehouse. The Surplus Property Management Office has implemented some of the physical security controls at the Richmond Warehouse to prevent theft, begun reorganization of the Richmond Warehouse, and is developing new policies and procedures. However, the Surplus Property Management Office does not feel that the automated inventory system recommended by the consultant is a cost efficient method to record and manage surplus, used and disposed assets.

The Surplus Property Management Office relies on agencies to contact them with requests to transfer items. We found that agencies are keeping equipment for as long as two years after declaring it available for transfer to the Surplus Warehouses. Though these items usually have low resale values, the longer the items sit unsold, the less valuable they become. Many things cause this problem such as the agencies' lack of knowledge about the program and the difficulty and cost of transporting items to the Warehouses. We have provided recommendations to improve the Surplus Property program in the "Internal Control, Compliance and other Matters" section of the report in the finding entitled "Increase Awareness and Use of the Surplus Property Process."

#### Office of Fleet Management Services

The Office of Fleet Management Services provides both owned and leased vehicles as well as vehicle maintenance services to the agencies and institutions of the Commonwealth. Agencies and institutions pay a daily rate and mileage fee determined by vehicle class used. For spot usage of a vehicle, the Office of Fleet Management has entered into a contract with Enterprise Rental Company for vehicles at reduced rates. Employees and their supervisors must check to determine that the use of a privately owned vehicle is more economical than the use of a rental car from Enterprise before going on a trip for state business. Fleet Management has also negotiated a contract for the Voyager fuel charge card that automatically removes the excise tax from gasoline and diesel fuel used in state owned or leased vehicles. This fuel card contract also provides a reduced rate per gallon for the fuel as compared to the pump price per gallon.

#### Fiscal Services Section

The Fiscal Services Section under the direction of the Controller uses PeopleSoft to not only provide fiscal management services to the department but also act as a fiscal service bureau for many smaller agencies, boards, commissions, and foundations of the Commonwealth. Internally, Fiscal Services uses

twenty-nine funds to account for the department's revenues and expenses. Most notably, there are eight Special Revenue Funds and ten Internal Service Funds. One of the three Enterprise Funds is for the collection of eVA fees, which will see a dramatic increase beginning with fiscal year 2007 as a result of the increased fee structure that users as well as the vendors will pay to cover the cost of the software owned and web-hosted by the eVA vendor, CGI-AMS.

Fiscal Services within the Director's Office also provides administrative support for the following agencies:

- Department of Charitable Gaming
- Virginia War Memorial Foundation
- Department of Employment Dispute Resolution
- Department of Minority Business Enterprises
- Council on Human Rights

### Procurement Services Section

Procurement Services provides the internal purchasing of goods and non-construction and non-professional service contracting for General Services, courier mail service for the Capital area, and surplus property management for the Commonwealth. In the third quarter of fiscal year 2005, the department hired a new director for Procurement Services and the section underwent an extensive reorganization.

As part of the reorganization and due to other factors discussed in this report, this section undertook the management of the surplus property program from the Division of Purchases and Supplies. Additionally, the reorganization transferred to the Bureau of Facilities Management purchasing staff, who specialized in procuring professional services, building construction, and maintenance.

### Human Resource Management Section

The Human Resource Management Section handles the employment processing including vacancy management, application screening, employee hiring, processing and orientation, employee records management, leave tracking, and employee benefits. This section maintains records for over 600 classified and hourly employees

### Information Systems and Services Section

The Information Systems and Services Section has assisted other agencies with major systems installations – most notably, the Department of Elections and the Commonwealth's Enterprise Application Team. Internally, the Section is evaluating responses to a request for proposals for a Division of Real Estate Services' integrated portfolio management, space planning, and lease management system. Information Systems and Services is continuing to work with Purchases and Supply to interface electronic invoicing in eVA with the PeopleSoft financial management system.

### Management Audit and Review Team

Management Audit and Review Team has conducted several studies and internal audits over the past year.

General Services also provides administrative support to four different Boards:

- Art and Architectural Review Board
- Design Build/Construction Management Review Board
- Virginia Public Buildings Board
- Citizens Advisory Council for Furnishing and Interpreting the Executive Mansion.

### *Division of Engineering and Buildings*

Engineering and Buildings provides architectural and property management services through two bureaus: Capital Outlay Management and Facilities Management. We plan to issue a separate report in 2007, which provides additional information and recommendations on the Commonwealth's capital outlay process and Capital Outlay Management's role in that process.

### Capital Outlay Management

The Director of Capital Outlay Management is the Building Official for all construction projects on state-owned land. As such, Capital Outlay Management is also the sole issuer of building permits and certificates of use and occupancy for any buildings constructed on state-owned land. Capital Outlay Management also grants other permits for items such as temporary structures, industrialized buildings, towers, antennae, and demolition. Capital Outlay Management must perform a substantial completion inspection for all capital projects; however, agencies can request Capital Outlay Management to perform other necessary inspections as well.

Capital Outlay Management performs cost and scope reviews of proposed state construction in coordination with the Department of Planning and Budget during the budgeting process. In addition, Capital Outlay Management develops and maintains the Commonwealth's policies and procedures for the procurement of professional and construction services. Capital Outlay Management provides training and assistance to state agencies, public bodies, and the private sector on the policies and procedures for procurement of construction and professional services and administers the Virginia Construction Contracting Officer exam and certification.

Capital Outlay Management does not perform project management duties over state construction projects; it is the agencies' responsibility to employ staff or hire consultants to perform these functions. However, Capital Outlay Management does provide the necessary project management forms that help agencies manage projects properly and effectively.

Capital Outlay Management reviews capital project designs of state buildings for compliance with all applicable building code requirements during each of the three project design phases (schematics, preliminary drawings, and working drawings) and upon completion of construction. In addition, Capital Outlay Management also reviews construction designs to determine whether the design enables the project to comply with the Commonwealth's procurement regulations during construction bidding. Capital Outlay Management can recommend design changes to make the building more efficient and reduce costs.

However, they cannot require agencies to alter the design to reduce costs if funding is available. It is the owning agency's decision whether to incorporate the recommendations. These reviews also help avoid change orders due to design errors and omissions; although, change orders for other reasons are never completely avoidable. The result of these reviews is to have a code compliant capital project that is constructible within scope and budget and complies with the Commonwealth's procurement laws.

## Bureau of Facilities Management

The Bureau of Facilities Management provides for the maintenance, repair, and operation of state-owned facilities in the Capitol Square Complex. The Capitol Square Complex includes approximately 40 office buildings, 20 parking facilities, and the Capitol Grounds. Facilities Management bills agencies using these facilities annually for rental costs, which covers normal expenses incurred for the maintenance and upkeep of the buildings. Facilities Management also performs maintenance and repair work for state-owned buildings not under the purview of General Services. These agencies pay General Services either annually or semi-annually for the work performed under negotiated service agreements. Finally, Facilities Management administers ongoing capital outlay projects assigned to General Services.

During this review, we reviewed the most significant of the service contracts for compliance with the Virginia Public Procurement Act and the implementing guidance contained in the Agency Procurement and Surplus Property Manual as well as how Facilities Management bills the agencies for the services. As stated above, normal expenses are included in the annual space rental costs. Facilities Management bills agencies for extra ordinary repairs or services at the same rate charged by the vendor and overhead.

### *Division of Real Estate Services*

The Division of Real Estate Services, formed in January 2005, administers the acquisition, lease, and disposal of real property by state agencies and institutions. This includes 360,000 acres of land in over 1,000 locations and 117 million square feet of space in 12,000 buildings. Additionally, the Commonwealth leases approximately 16 million square feet of rental space in 1,400 locations.

General Services created Real Estate Services to fulfill the requirements of the Governor's 2004 real estate initiative, which directed the Secretary of Administration to make the Commonwealth's real estate management practices more consistent with those in the private sector and create a streamlined approach to replace inefficient, decentralized property systems. Real Estate Services' purpose is to re-engineer the Commonwealth's asset management processes; strengthen coordination and cooperation between state agencies and Real Estate Services; and provide responsiveness and expertise to the acquisition process.

To aid in the lease acquisition process, Real Estate Services formed a new Bureau of Lease Acquisition and implemented a new program that provides each agency with a designated Agency Relationship Manager. The Director of the Bureau of Lease Acquisition negotiates the more complex leases. The Agency Relationship Managers serve as the agency's contact at Real Estate Services. The Agency Relationship Managers understand their assigned agencies' unique requirements, issues, and objectives and help the agency select the most beneficial space available and negotiate the lease.

Real Estate Services relies on the Property and Lease Tracking System for information on all Commonwealth leased and owned property. However, implementation of this system occurred before the creation of Real Estate Services and much of the information is incomplete or outdated. At the time of this report, Real Estate Services has issued a request for proposal and completed negotiations for a new real estate management system to replace the Property and Lease Tracking System and aid in accomplishing the objectives of the Governor's real estate initiative.

### *Division of Purchases and Supply*

Purchases and Supply establishes state policies and procedures for purchasing goods and services based on the Virginia Public Procurement Act. Further, they establish statewide goods and service contracts and assist agencies with the purchase of high-dollar goods and non-professional services.

Purchases and Supply maintains and manages the state web and fee based procurement system, eVA. Additionally, Purchases and Supply operates the Virginia Distribution Center, which stocks food and nonfood items for resale to state agencies, local governments, and public schools.

In addition, Purchases and Supply conducts training and certification of procurement officials for state agencies and local governments within the Commonwealth.

*Division of Consolidated Laboratory Services*

Consolidated Laboratories provides analytical testing services to the Commonwealth. Consolidated Laboratories examines air and water samples, infant blood samples as part of the Commonwealth’s newborn screening program, and human specimens for disease control. Further, they test and analyze products, foods, and materials regulated by state and federal laws. Consolidated Laboratories also inspects and certifies laboratories performing tests in accordance with the Safe Drinking Water Act and FDA dairy regulations. Consolidated Laboratories has added a chemical and bio-terrorism response unit to assist other agencies in determining the proper response to such an incident.

Consolidated Laboratories primarily serves the Departments of Agriculture and Consumer Services, Environmental Quality, Health, Labor and Industry, Alcoholic Beverage Control, and State Police. Consolidated Laboratories also provides services to poison control centers, hospitals, waterworks, law enforcement agencies, and others.

*Comparison to Other States:*

We also compared the services performed by Virginia’s General Services to various Departments of General Services in other states for informational purposes. Using the Internet, we have a sample of services offered by other Departments of General Services including major differences.

Function	Virginia	California	Pennsylvania	New York	Tennessee	Maryland
Building Security	X	X	X	X	X	X
Capital Asset Accounting				B		
Capital Outlay Accounting						E
Capital Outlay Management	X		X			X
Capital Police			X			X
Consolidated Laboratory Services	X					
Construction Management	Lim	X	X	X		
Facilities Management	X	X	X	X	X	X
Fiscal Services	X		X			
Fleet Management	X	X	X	X	X	X
Food Distribution	X			X	C	
Graphic Services	X	X	X			X
Inventory Management						X
Mail Service	X		X	X	X	

Function	Virginia	California	Pennsylvania	New York	Tennessee	Maryland
Parking	X	X	X	X	X	X
Printing		X		X	X	X
Public School Construction Management		A				
Real Estate Services	X	X	X	X	X	X
Records Management					X	X
Risk and Insurance		X	X	X		
Space Planning	X	X	X	X	X	X
Statewide Contracts	X	X	X	X		X
Statewide Procurement			X	X	D	X
Surplus Property	X	X	X	X	X	X
Telecommunications		X				
Women and Minority Business			X			

Lim = Limited Responsibility

X = Primary Responsibility

- A. California's General Services supervises and manages the construction of all public education facilities in the state.
- B. New York's General Services provides the same function as the fixed asset accounting system in the Financial Reporting Section of the Virginia Department of Accounts.
- C. Tennessee operates a central kitchen and delivers hot food to state institutions. Virginia provides canned and frozen food to other agencies and institutions of the Commonwealth through the Virginia Distribution Center.
- D. Tennessee is the central purchasing authority for all procurements greater than \$7,500. General Services assists other agencies on an on call basis if the other agency feels that the procurement is beyond their capability.
- E. Maryland's General Services functions as the Capital Funds Manager and accounts for all capital funds expended within the state by all agencies.

As can be seen from the above information, the services provided to the agencies of state governments by the various Departments of General Services are very similar. There are some differences, which are rather unique to that particular state, such as statewide accounting functions for capital assets, capital outlay, and inventory management. At one time, the Virginia's General Services included Risk Management and Insurance, which is now part of the Departments of Treasury and Human Resource Management. Records Management in the Commonwealth of Virginia is a function of the State Library (Secretary of Education), and Capitol Police is a legislative agency. General Services does perform some construction management for projects within the Capital Square. Those states listed in the table perform the construction management function on a statewide basis. There are several states that have combined their state fiscal operations (Department of Accounts) and General Services – Hawaii and Iowa. We noted several states (not listed above) where the Department of General Services is the Purchasing Agent for all state and county agencies and institutions.

## FINANCIAL HIGHLIGHTS

Tables 1 and 2 reflect operating funding, budget, and expense activity for fiscal years 2005 and 2006.

*Table 1  
Department of General Services  
Budget and Expense Analysis for Fiscal Years 2005 and 2006*

	2005			2006		
	Original Budget	Adjusted Budget	Actual Expenses	Original Budget	Adjusted Budget	Actual Expenses
General Funds	\$ 18,708,604	\$ 19,520,404	\$ 19,518,453	\$ 18,805,467	\$ 20,866,918	\$ 20,759,188
Special Revenue Funds	2,629,758	4,205,065	3,681,316	2,629,758	4,072,763	3,816,581
Enterprise Funds	11,328,699	12,981,699	11,480,394	11,496,913	11,849,743	10,884,496
Internal Service Funds	Sum sufficient	93,792,033	70,577,068	Sum sufficient	98,160,772	77,568,562
Federal Trust Funds	<u>5,530,862</u>	<u>10,328,509</u>	<u>10,245,025</u>	<u>5,530,862</u>	<u>8,575,632</u>	<u>8,321,261</u>
<b>Total</b>	<b><u>\$ 38,197,923</u></b>	<b><u>\$140,827,710</u></b>	<b><u>\$115,502,256</u></b>	<b><u>\$ 38,463,000</u></b>	<b><u>\$143,525,828</u></b>	<b><u>\$121,350,088</u></b>

For General Services, the General Assembly appropriates Internal Service Funds as a sum sufficient amount because they are self-supporting funds through the collection of revenues, such as sales, fees for services, and other items. The final adjusted budget includes a planning estimate for comparison purposes, which results in a variance between original and adjusted budgets. The increase between the original and adjusted federal budgets reflects the increase in a bio-terrorism grant to support Virginia's chemical terrorism response and a preparedness laboratory.

*Table 2*  
*Department of General Services*  
*Budget to Actual Expenses by Division and Program*  
*Fiscal Years 2005 and 2006*

<u>Division and Program</u>	<u>2005</u>		<u>2006</u>		<u>2007</u>
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>
Office of the Director:					
Admin and support	\$ 4,000,669	\$ 3,999,866	\$ 4,390,696	\$ 4,289,019	\$ 5,863,922
Graphic services	406,209	385,049	422,680	352,910	374,833
Historic and Commemorative Attractions	182,752	182,751	215,181	215,172	505,198
Property disposal	124,934	20,229	1,517,613	1,466,951	1,920,660
Fleet management	<u>13,747,447</u>	<u>12,246,926</u>	<u>13,863,721</u>	<u>11,485,272</u>	<u>13,829,191</u>
Total	<u>18,462,011</u>	<u>16,834,821</u>	<u>20,409,891</u>	<u>17,809,324</u>	<u>22,493,804</u>
Division of Purchases and Supply:					
Procurement services	15,035,085	13,302,610	13,955,032	12,724,891	7,624,447
Warehousing services	<u>45,074,832</u>	<u>25,555,585</u>	<u>45,128,303</u>	<u>28,521,468</u>	<u>25,968,909</u>
Total	<u>60,109,917</u>	<u>38,858,195</u>	<u>59,083,335</u>	<u>41,246,359</u>	<u>33,593,356</u>
Division of Consolidated Laboratory Services:					
Laboratory services	<u>26,101,281</u>	<u>25,288,374</u>	<u>26,388,448</u>	<u>25,435,903</u>	<u>27,006,907</u>
Division of Engineering and Buildings:					
Physical plant acquisition and management	4,017,667	3,664,611	3,798,606	3,730,750	3,339,873
Physical plant maintenance and Service	<u>32,136,834</u>	<u>30,856,255</u>	<u>33,845,548</u>	<u>33,127,752</u>	<u>34,306,610</u>
Total	<u>36,154,501</u>	<u>34,520,866</u>	<u>37,644,154</u>	<u>36,858,502</u>	<u>37,646,483</u>
Grand Total	<u>\$ 140,827,710</u>	<u>\$ 115,502,256</u>	<u>\$ 145,525,828</u>	<u>\$ 121,350,088</u>	<u>\$ 120,740,550</u>

The surplus property and disposal program moved to the Office of the Director in fiscal year 2006 from Purchases and Supply causing an increase in the budget and actual expenses for the property disposal program over fiscal year 2005.

During both fiscal years, the Office of the Director's Fleet Management budget includes funding to purchase new vehicles; however, due to mandated transfers to the General Fund, Fleet Management purchased fewer vehicles for the central fleet. This did not significantly affect operations because Fleet Management was working on right sizing or outsourcing the central fleet.

The budgeted expenses in Table 2 for Warehouse Services are the appropriations instead of the budgeted expenses. The Virginia Distribution Center budgets expenses based on expected revenue because it is a sum sufficient operation using an internal service fund. The budgeted amount varied greatly from the actual expenses in fiscal years 2005 and 2006 because the revenue estimate was high due to a reduction in

actual revenue in 2003 that General Services did not consider in the 2004 through 2006 revenue estimates. General Services has brought the revenue estimate in line with actual expenses as evidenced by the fiscal year 2007 budget. The major factor in the decline in sales in fiscal year 2003 was the privatization of three correctional facilities that included privatizing food service operations. One of the privatized facilities was the Distribution Center's single largest customer. In addition, several universities outsourced food operations.

Expenses for laboratory services through Consolidated Laboratories remained relatively constant from fiscal year 2005 to 2006. However, there was an increase in personnel costs from fiscal year 2005 to 2006 due to adjustments in salary levels to retain personnel with the opening of the Philip Morris Research Center and an attempt to maintain parity. In addition, contractual services and supplies increased because of additional testing requirements, specifically for newborn infants. A decrease in equipment costs in 2006 due to the completion of equipping the new bio-level four laboratory in 2005 offset these increase.

*Table 3  
Employment Levels  
Department of General Service*

	2005		2006		2007
	Budget	Actual	Budget	Actual	Budget
General fund positions	249.5	227	240.5	265	250.7
Non-general fund positions	<u>401.5</u>	<u>367</u>	<u>401.5</u>	<u>359</u>	<u>404.3</u>
Total	<u>651.0</u>	<u>594</u>	<u>642.0</u>	<u>624</u>	<u>655.0</u>

*Capital Expenditures*

General Services spent approximately \$74 million and \$58 million on capital projects in fiscal years 2005 and 2006, respectively. As can be seen on Appendix A, eighty percent of the expenses in 2005 were for the renovation or reconstruction of three buildings – the Patrick Henry Building, the State Capital Building, and the Finance Building. In fiscal year 2006, out of \$58 million, \$30 million represents costs for the State Capital Improvements. Capital Outlay efforts by General Services during the audit period included four major renovation and construction projects taking place within capital square, the acquisition of one parking deck, the construction of a new parking deck, and the acquisition of Old City Hall. General Services expects to complete the Capital Square Improvements by 2007 at an estimated total cost of \$190 million. General Services also plans to use Construction Management at Risk procurement to demolish the Eighth Street Office Building, renovate the Ninth Street Office Building, and build a new Broad Street Office building to relocate state agencies currently in leased space.



# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

August 8, 2007

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable Thomas K. Norment, Jr.  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the **Department of General Services** for the years ended June 30, 2005 and June 30, 2006. We conducted our audit in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

## AUDIT OBJECTIVES

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the PeopleSoft Financial System as used by General Services, review the adequacy of General Services' internal controls, and test compliance with applicable laws and regulations. Our secondary objectives were to gain an understanding of the role of the Bureau of Capital Outlay Management and its' role in the oversight of capital expenditures; the role of the Division of Purchases and Supply in the procurement of goods and services through the award of statewide contracts; and the increasing role of the Division of Real Estate Services in the administration and oversight of the Commonwealth's portfolio of land and buildings. Our objectives also included comparing the Commonwealth's current processes and controls in these areas with industry best practices to identify opportunities for improvements or increased efficiencies and reviewing the controls and processes over the Surplus Warehouse.

## AUDIT SCOPE AND METHODOLOGY

General Services' management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Revenues  
Contractual services expenditures  
Payroll expenditures  
Small purchase charge card  
Internal Service Funds with respect to eVA  
Statewide contract procurement and administration  
Capital outlay administration  
Surplus property program  
Lease acquisition and management

We performed audit tests to determine whether General Services' controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, and contracts, and observation of General Services' operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses. We conducted a search of the internet web pages of the Departments of General Services for several states.

### CONCLUSIONS

We found that General Services properly stated, in all material respects, the amounts recorded and reported in the PeopleSoft Financial System. General Services records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the PeopleSoft Financial System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. We also found opportunities for improvements and increased efficiencies and made recommendations to management in the area of surplus property and disposal. These matters and recommendations are described in the section entitled "Internal Control, Compliance, and other Matters."

General Services has not taken adequate corrective action with respect to the previously reported finding "Update and Enhance eVA Manuals." Accordingly, we include this finding in the section entitled "Internal Control, Compliance, and other Matters" under the finding entitled "Review and Issue Updated eVA Manual." General Services has taken corrective action with respect to audit findings reported in previous audit reports that are not repeated in this report.

### EXIT CONFERENCE AND REPORT DISTRIBUTION

We discussed this report with management on August 8, 2007. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC/wdh

Appendix A  
Department of General Services  
Capital Outlay  
Fiscal Years 2005 and 2006

Project	Title	Date Approved	Total Appropriation	Sources	
				General Fund	Debt Service
10079	Renovation to Facilities	08/05/94	N.A.	-	-
13945	James Madison Renovation	07/29/88	N.A.	-	-
14260	Maintenance Reserve	Annual	\$ 2,752,238	\$ 2,752,238	-
14392	Virginia State Library	07/01/87	N.A.	-	-
14792	Renovate James Monroe Bldg	07/01/92	N.A.	-	-
15570	Parking Renovations I & II	08/17/97	N.A.	-	-
15953	VDC Central Warehouse	04/30/98	N.A.	-	-
16018	Renovate Executive Mansion	05/28/98	N.A.	-	-
16333	HVAC Renovation - Zincke Bldg	02/20/00	670,500	640,522	-
16487	GAB Elevator Upgrades	05/26/00	3,453,000	1,476,541	\$ 1,976,459
16624	Darden Gardens - Water & Sewer Sys	07/16/01	354,000	71,141	282,859
16635	14th Street Parking Deck	08/24/01	21,150,000	-	13,550,000
16780	Patrick Henry Bldg Renovation	08/21/02	40,426,000	1,186,000	34,807,000
16881	State Capital Renovation <b>A</b>	08/04/03	96,876,000	83,051,000	-
16966	Renovation & Additions - Finance Bldg	05/07/04	26,284,000	-	26,284,000
16967	Renovations - Washington Bldg <b>B</b>	05/07/04	15,759,000	-	15,759,000
16996	Acquire VRS Parking Deck	07/01/04	5,700,000	-	5,700,000
17081	Replace 8th St Office Bldg	08/04/03	12,950,000	12,950,000	-
17082	Modify 9th St Office Bldg	03/25/05	1,632,000	-	1,632,000
17141	Energy Conservation Measures	05/04/05	610,000	-	-
17176	Purchase Leasehold - Old City Hall	05/04/05	5,640,000	-	-
17177	Education Wing Va War Memorial <b>C</b>	05/04/05	100,000	50,000	-
17182	Planning - Supreme Court Bldg	05/04/05	50,000	50,000	-
17183	Study - Gen Assbly Bldg	05/04/05	150,000	150,000	-
<b>Grand Total</b>					

\* Could be Special Revenue, Dedicated Special Revenue, Trust and Agency, Federal, or Private Partnership Agreement.

Note: Appropriation data for projects approved prior to 1999 is not available.

**A.** An additional \$4,500,000 of General Fund money was appropriated in 2007.

**B.** An additional \$4,817,000 of General Fund money was appropriated in 2007.

**C.** \$500,000 in General Funds and \$2,000,000 were appropriated in 2007.

Appendix A  
Department of General Services  
Capital Outlay  
Fiscal Years 2005 and 2006

Sources		Expenditures				Appropriations Available
Bonds	Other *	Prior Years	2005	2006	Total	
-	-	\$ 1,838,395	\$ 92,512	\$ 12,427	\$ 1,943,333	N.A.
-	-	13,878,384	79,437	25,222	13,983,043	N.A.
-	-	-	782,671	1,441,708	2,224,379	\$ 527,859
-	-	4,262,947	(332,430)	15,838	3,946,354	N.A.
-	-	1,010,239	36,600	3,121	1,049,960	N.A.
-	-	231,528	11,523	1,880	244,931	N.A.
-	-	12,488,054	11,694	-	12,499,748	N.A.
-	-	7,247,419	29,715	(29,715)	7,247,419	N.A.
-	\$ 29,978	652,319	13,268	-	665,587	4,913
-	-	2,444,530	61,847	-	2,506,376	946,624
-	-	184,271	940	-	185,211	168,789
-	7,600,000	9,871,740	8,119,456	1,160,410	19,151,606	1,998,394
\$4,433,000	-	15,569,772	22,839,208	6,656,000	45,064,980	(4,638,980)
-	13,825,000	2,895,262	19,949,190	30,270,074	53,114,526	43,761,474
-	-	1,254,928	15,918,002	9,091,418	26,264,348	19,652
-	-	-	494,837	2,182,778	2,677,615	13,081,385
-	-	-	5,700,000	-	5,700,000	-
-	-	-	-	-	-	12,950,000
-	-	-	71,578	1,555,604	1,627,181	4,819
-	610,000	-	-	-	-	610,000
-	5,640,000	-	-	5,601,942	5,601,942	38,058
-	50,000	-	-	4,515	4,515	95,485
-	-	-	-	26,011	26,011	23,989
-	-	-	-	150,000	150,000	-
		\$73,829,787	\$73,880,048	\$58,169,231	\$205,879,066	



# COMMONWEALTH of VIRGINIA

*Department of General Services*

Richard F. Sliwoski, P.E.  
Director

Joseph F. Damico  
Deputy Director

Bobby Myers  
Deputy Director

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August 14, 2007

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
101 N. 14<sup>th</sup> Street, 8<sup>th</sup> Floor  
Richmond, VA 23219

Dear Mr. Kucharski:

The Department of General Services (DGS) appreciates the time and effort the Auditor of Public Accounts (APA) staff spent reviewing its Financial System and concluding that DGS “properly state, in all material respects, the amounts recorded and reported.” In addition, DGS recognizes the internal control matters, identified by the APA staff, that require management attention and is appreciative of the recommendations for improvements in the surplus property and disposal program.

I would like to take this opportunity to document some actions we have already taken and those planned in response to the APA findings and recommendations in this report:

### **“Efficiency Issue Alert”**

#### **“Addressing eVA Standards:”**

General Services concurs with the recommendations made by the Auditor of Public Accounts. In fact, General Services completed the following supporting actions prior to the current review by the Auditor of Public Accounts.

- General Services assigned key subject matter experts to active roles working with the Enterprise Application Project Office and its Director. These subject matter experts include General Services’ Director, Controller, Director of Information Systems and Services, Director of Purchases and Supply, eVA Program Director, eVA Business Manager, and other key subject matter experts. Several of these individuals have assumed key roles on the EA Management Team. All of these individuals have assumed key roles on EA teams responsible for defining “Future State” documents and conducting associated fit gap analyses

Mr. Walter J. Kucharski  
August 14, 2007  
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necessary to establish the framework for developing and implementing the Commonwealth's EA goals and objectives, including those included in this report.

- For more than three years General Services has provided state agencies and institutions of higher education import and export interfaces, and related technical support, to facilitate the sharing of data between eVA and the agencies' enterprise resource planning and accounting systems (ERP). The requisite data standards and resulting interfaces were designed and tested by a team of subject matter experts including representatives from agencies and institutions of higher education. These generic interfaces facilitate the batch exchange of data between eVA and most existing ERPs. Approximately 25 agencies and institutions of higher education have implemented one or both of these interfaces.
- During the past year, General Services worked with a team of state agency and institution of higher education subject matter experts to develop and test generic integration functionality that enables near real-time exchange of data between eVA and agencies' ERPs. This integration functionality has been installed in production. Of the six institutions of higher education planning to implement integration of their ERPs with eVA, GMU is expected to be the first agency to complete this integration in September 2007. The integration functionality, combined with General Services' experience and expertise, will be leveraged to achieve seamless integration of eVA with the EA applications.

General Services also concurs with the Auditor of Public Accounts assessment that General Services alone does not have the authority or the influence necessary to achieve enterprise-wide cooperation with and adoption of the Auditor's recommendations. In addition to the auditor's recommended support from the Secretaries of Administration, Finance and Technology, as well as the Commonwealth's Enterprise Application Project Director, General Services believes successful execution of the Auditor's recommendations will require support from the Auditor of Public Accounts and may require some legislative action by the General Assembly which has previously exempted numerous agencies and institutions from the Virginia Public Procurement Act, General Services' procurement oversight authority, and participation in Commonwealth enterprise procurement and technology infrastructure initiatives.

#### **"Internal Control, Compliance, and Other Matters"**

##### **Improve Documentation and Internal Controls Over Fiscal Operations:**

DGS concurs with the recommendation to perform a risk assessment of the Fiscal Services Section's operations and will move forward with this recommendation. A report identifying issues identified by the risk assessment will be prepared and a plan to address any issues identified from the assessment will be prepared by DGS.

##### **Review and Issue Updated eVA Manual:**

DGS has updated the manual and posted the update on June 27, 2007.

**Develop and Implement Policies and Procedures for the Surplus Warehouses:**

The DGS Surplus Property Management Office (SPMO) is currently writing, implementing and training OSHA safety policies and procedures specific to warehouse operations; this will be complete by the end of September 2007. Once the OSHA procedures are complete, the SPMO will turn its attention to writing Standard Operating Procedures (SOPs) for the warehouse operations. SOPs addressing receipt, storage, sale, and disposal of items received at the Surplus Property Warehouses will be complete and implemented by the end of December 2007.

**Increase Awareness and Use of the Surplus Property and Disposal Process:**

The DGS Surplus Property Management Office (SPMO) continues to improve the flow of property into the warehouses however there are constraints in how much can be received on any given day. That is the reason Surplus recommends all Agencies schedule deliveries. SPMO is researching the possibility of providing transportation of material from agencies to Surplus warehouses however, any change in this regard must be considered with the associated additional cost that would be passed to agencies. SPMO is working on new web pages and its internet sales program to improve customer communication and increase surplus property sales.

**Finalize and Distribute Real Estate Policies and Procedures:**

The DGS, Division of Real Estate Services (DRES) has prepared a schedule for the revision of policy and procedure documents. This schedule provides for the revision of high priority and frequently used sections first with the entire review and republishing to be accomplished within 9 months. Two of the most experienced individuals in the division will be working on this project with the assistance of focus groups composed of representatives of various customer agencies. These changes will correct references to prior organizations, specify both DRES and agency responsibilities, and reflect the shift in roles that has occurred over the last 2½ years.

**Improve Controls Over Appointment of Contract Administrators:**

For the two contracts where contract administration appointment letters were not issued, DGS Central Procurement Unit has since issued the letters. The two contracts are:

Contract #C300025, Otis Elevator – An appointment letter has been completed and issued to the Contract Administrator.

Contract #051004WQ-A, StarLims – An appointment letter has been completed and issued to the Contract Administrator.

All DGS Central Procurement Unit contracts will be reviewed to ensure appropriate designations, and corrective actions will be made as necessary. In future, greater consideration will be given in determining which person or persons are optimally suited to fulfill the Contract Administrator responsibilities.

Mr. Walter J. Kucharski  
August 14, 2007  
Page Four

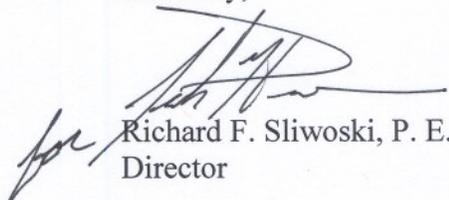
**Internal controls Over Administration of Statewide Contracts:**

Vendor evaluation documentation has been placed in the files and a copy was forwarded to APA by separate e mail on April 30, 2007.

**Improve Internal Controls Over Special Payouts to Terminated Employees:**

APA's findings are correct with regard to one instance in which a terminated employee received an improper payout of \$5,000. The employee converted disability credits into one year of retirement credit. The transmittal form (source document) was marked that the employee was enrolled in VSDP (which should disqualify payment of sick leave) and YES, that the disability credits were being converted to retirement credit. Auditor is correct that the Human Resources division was unaware of the situation until notified by the auditor. DGS will re-evaluate its internal controls, and modify if necessary, to ensure control over payments. DGS will conduct this re-evaluation no later than the end of December 2007.

Sincerely,



Richard F. Sliwoski, P. E.  
Director

AGENCY OFFICIALS

Viola O. Baskerville  
**Secretary of Administration**

Richard F. Sliwoski, P.E.  
**Director, Department of General Services**

Joseph Damico  
**Deputy Director, Department of General Services**

Bryan W. Wagner  
**Controller, Department of General Services**